



CITY OF SUGAR LAND
CITY MANAGER

October 1, 2006

Honorable Mayor and Members of City Council:

In accordance with Texas Statute and the Charter, Section 6.03 of the City of Sugar Land, the annual budget for the fiscal year beginning October 1, 2006 and ending September 30, 2007 is hereby presented as approved by City Council.

The fiscal year 2006/07 budget is structurally balanced, addresses Council priorities, and follows the fundamentals of the City's Financial Management Policy Statements. This financial plan effectively balances achievement of community needs and accomplishment of Council priorities, while maintaining financial strength. The budget lowers the tax rate by \$0.01056 per \$100 from the 2005 tax rate, limiting the effects of increasing property valuation on residents. The budget is designed to provide services for an estimated resident population of 76,787 as of January 2007, and an increasing daytime population, as the City becomes an employment center.

Among other national recognitions, Sugar Land ranks third in CNN/Money Magazine's 2006 "Best Places to Live". The focus was on livable cities with the "best possible blend of good jobs, low crime, quality schools, plenty of open space, rational home prices and lots to do." The outcome mirrors our 2021 vision- the community of choice...to live... to work...to play...to shop.

The City received upgrades in bond ratings in 2006. Both Moody's and Standard & Poor's upgraded the general obligation bond rating to Aa2 and AA, respectively, while Fitch, Inc. affirmed the AA rating already assigned to the City. Standard & Poor's also upgraded the City's revenue bond rating from A+ to AA-, while Moody's affirmed their A1 rating on revenue bonds. These ratings reflect the City's diverse economy, household income levels, willingness to adjust rates to maintain financial performance, and proactive policies to manage new development, including plans for future borrowing to address growth. The City's pay-as-you-go strategy for capital improvements and low property tax rate ensure that our budget is not overly burdened with elevated debt levels.

The City's challenge is to continue to provide superior services while minimizing, where controllable, the increasing fixed costs of doing business. The CPI increase for the Houston-Baytown-Sugar Land MSA for the 12 months ending August 2006 was 4.0%. Increased costs are evident in areas such as fuel and electricity, which affects most areas of the City's operations, from streetlights to buildings to water and wastewater plant operations.

CITY MANAGER'S BUDGET MESSAGE

Benefits to the City for this budget cycle include growth in our tax base through the 2005 annexation of Fort Bend Municipal Utility District 113 and through commercial growth. Excluding value added through the annexation, the City's certified tax roll is a 7% increase over 2005, with more than 60% of this growth from commercial valuation. The average residential revaluation increase is 3.89% over 2005 values. As a result, we are able to lower the tax rate by 1.056 cents, and dedicate an additional one-cent to drainage efforts. For 2006, the average Sugar Land homeowner will see a slight increase of \$3.38 or 0.5% in their tax bill from \$645.65 to \$649.03. The budget continues the City's tradition of good value for the tax dollar.

Economic Outlook

Sugar Land has seen strong development activity in fiscal year 2005/06. For fiscal year 2005/06, 52 commercial permits were issued with a construction value of \$156.2 million, including \$79.8 million in the City's extraterritorial jurisdiction. Residential construction took off late in the fiscal year, with 392 single-family permits issued- an 83% increase in permits, with an average value of \$230,684, a 39% increase over last year's average permitted value. Of these permits, 296 were for homes in Telfair. Over the next year, the developer anticipates construction of an additional 600 homes in the 2,000-acre development. Lake Pointe is seeing strong commercial development, and construction of Lake Pointe Village is anticipated to begin soon, with 200,000 square feet of upscale retail and restaurants. A re-development plan for the former Imperial Sugar property, along with 500 adjacent acres, is in the planning stages.

The expansion of First Colony Mall is scheduled to open October 2006, providing 80,000 square feet of open-air retail and restaurant space between the existing mall and Town Square, with a pedestrian-friendly connection at Town Center Boulevard. Two additional restaurants are scheduled to begin construction in 2007. Town Square development continues with the continued leasing and build-out of completed retail and office construction.

Budget Priorities

In March, management held a discussion with City Council on budget priorities for the upcoming fiscal year. With Council's input, the following priorities were communicated to departments that resulted in requests for funding. The priorities and allocated funding are summarized below:

- Strengthen Code Enforcement- the budget reallocates a position from the City Manager's office to the newly created Community and Environmental Services department. The department will include Health Inspection and Code Enforcement, and focus efforts toward issues that affect neighborhood livability and integrity.
- Citizen Emergency Response Team (CERT)- a program to train citizens to respond to emergencies within their own neighborhoods and support the City's public safety efforts in a disaster.
- Implement Public Safety Compensation & Special Pay Study- a comprehensive analysis of the City's public safety pay structure, and special pay for employees is wrapping up just in time for the budget. Market-based recommendations from the study are incorporated into the budget and will be implemented in fiscal year 2006/07.

CITY MANAGER'S BUDGET MESSAGE

- Establish a Volunteer Program- with three classes of Sugar Land 101 and the first Mayor's Youth Advisory Council complete; the City has a pool of individuals for opportunities where volunteers are needed. Opportunities exist for Citizen Police and Fire Academy graduates as well.
- Uniform Firearms- the Police Chief is recommending a transition to standardized weapons for all officers. The budget includes funding for the purchase of handguns and rifles, leather gear, cases and rifle racks, plus training needed for officer qualification with their new weapons.
- Special Crimes/Gang Task Force- as our City and region continue to grow, the City's proximity to a major urban area is having an effect. The Police Department teamed up with area law enforcement agencies to focus on targeted crimes. Funding is included to continue this pilot program in fiscal year 2006/07, and provide for operating and overtime needs.
- ROW Maintenance Efforts- the City has placed significant importance on beautification of rights-of-way; the need for established funding to provide for replacement of landscaping and continued upkeep of public areas has become increasingly clear. In fiscal year 2006/07 the City will retain maintenance of these areas and increase our efforts in mosquito control and street sweeping.
- Operating Impact of CIP Projects- the opening of Brazos River Park is anticipated in May 2007, leading to increased maintenance requirements in the Parks Department. Improvements to Duhacsek Park will result in increased maintenance needs at that facility as well.
- Needs from New Development- residential development within Telfair is leading to increased building permit applications and installation of utility connections. With 276 permits issued in the last three months of fiscal year 2005/06, the intensity of the development places a strain on current resources. The budget includes the addition of four and one half (4.5) full-time equivalent positions to address the service needs from development.
- Implement IT Master Plan- the Information Technology Master Plan is complete and the budget includes some, but not all, of the first year of recommendations, including the addition of two (2) full-time positions and resources to improve the operating efficiency of the department and beginning implementation of recommended projects. Remaining recommendations will be phased in based on available funding.
- Internal Services Needs- as the City grows, additional demands are placed on internal service departments- specifically in the areas of fleet maintenance and building support. To ensure continued quality service delivery, additional resources are needed in these areas.

The adopted budget includes eighteen (18) new positions for fiscal year 2006/07. Eleven (11) of the positions are in the General Fund, five (5) are in the Utility Fund, and two (2) are in the Airport Fund. Each position will be identified in the budget summary that follows this introduction to the budget.

Fiscal Year 2006/07 Budget Summary

The fiscal year 2006/07 adopted budget total is \$141.6 million, which is a \$3.62 million or 2.62% increase over the total fiscal year 2005/06 amended budget of \$137.99 million, including the budget for the annexation of MUD113. The budget is split into three segments: the first is the City's operating budget, which is the funding that provides for day-to-day service delivery; the remaining two are the Component Units, which includes the Sugar Land Development Corporation and the Sugar Land 4B Corporation, and the Capital Projects budget, both which can vary significantly from year to year.

CITY MANAGER'S BUDGET MESSAGE

The adopted budget is broken down as follows:

	FY 2005/06 Amended	FY 2006/07 Adopted	% Change	\$ Change
City Operating Budget	\$ 91,634,197	\$102,247,679	11.58%	\$10,613,482
Component Units	23,499,685	7,998,541	-65.96%	-15,501,144
Capital Projects	22,861,238	31,369,988	37.22%	8,508,750
Total	\$137,995,120	\$141,616,208	2.62%	\$ 3,621,088

The annexation of Fort Bend MUD113 leaves a positive balance in the General Fund. I am proposing to set aside \$300,000 of this balance as a reserve for future annexation / dissolution of districts within the City and extraterritorial jurisdiction (ETJ). By capturing these dollars each year, we may be able to facilitate future annexations or dissolutions of these districts and minimize the financial impact to residents. We are working to negotiate Strategic Partnership Agreements (SPA) with the MUDs in our ETJ; the SPA will define the terms of annexation and establish participation of the MUD in the City's groundwater reduction plan.

As we have done in the last few years, a long-range forecast has been prepared for each of the major operating funds. The forecast shows that the adopted budget is affordable, both this year and in future years, and will allow us to progress toward objectives identified in the financial management policy statements. The long-range forecast is included in the appendix and will be reviewed during each fund's respective budget workshop.

I encourage you to read further into the annual budget for fiscal year 2006/07. The budget summary that follows this transmittal letter provides a summary of revenues, initiatives included in each of the City's operating funds, and a description of the capital improvements plan and employee compensation. Within each fund are the programs of services for the departments that are supported by the various funding sources; these programs are the backbone of the City's mission- providing high quality services to make our City a better place to live.

Respectfully,



Allen Bogard
City Manager